EXECUTIVE SE(ETARIAT

ROUTING SLIP

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		ACTION	INFO	DATE	INITIAL
1	DCI		X		
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3	EXDIR				
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9	Chm/NIC				
10	GC				
11	IG				
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13	D/OLL				
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SUSPENSE ______________ Date

Remarks

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for Executive Secretary

1 July 85

Date

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THE WHITE HOUSE

Executive Registry
85-2210/7

CABINET AFFAIRS STAFFING MEMORANDUM

TEPC mtg
2 Jul 85
Japan Trade
Common Fund

Date: 7/1/85 **Number:** 316959CA **Due By:**

Subject: Economic Policy Council Meeting - Tuesday, July 2, 1985
9:00 A.M. - Roosevelt Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☐
Justice	☐	☐
Interior	☐	☐
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☑	☐
Energy	☐	☐
Education	☐	☐
~~OMB~~	☑	☐
CIA	☑	☐
UN	☐	☐
USTR	☑	☐
Chief of Staff	☑	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
Mc Farlane	☐	☐
Svahn	☑	☐
Chew *(For WH Staffing)*	☑	☐
Executive Secretary for:		
DPC	☐	☐
EPC	☑	☐

REMARKS:

There will be an Economic Policy Council meeting on Tuesday, July 2 at 9:00 A.M. in the Roosevelt Room.

The agenda and background papers are attached.

RETURN TO:

☑ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Tom Gibson
☐ Larry Herbolsheimer

Associate Director
Office of Cabinet Affairs
456-2800 (Room 129, OEOB)

THE WHITE HOUSE

WASHINGTON

June 28, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Papers for the July 2 Meeting

The agenda and papers for the July 2 meeting of the Economic Policy Council are attached. The meeting is scheduled for 9:00 a.m. in the Roosevelt Room.

The first agenda item is a review of Japanese trade issues. The discussion will focus on the approach the Administration should take regarding the possibility the Japanese Government may impose an export surcharge. A paper reviewing this issue as well as the recent tariff announcement by the Japanese Government prepared by the Office of the U.S. Trade Representative in coordination with the Office of Policy Development is attached.

The second agenda item concerns the Common Fund. The Council's discussion will focus on the issue of whether the United States should ratify the Common Fund Agreement. A paper prepared by the Department of the Treasury on this issue is also attached.

Attachments

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

July 2, 1985

9:00 a.m.

Roosevelt Room

AGENDA

1. Japanese Trade Issues

2. The Common Fund

Japanese Trade Issues

Two issues regarding U.S.-Japan trade relations that require Economic Policy Council consideration include:

1. What approach should the Administration take regarding the possibility that the Japanese Government may impose an export surcharge?

2. Should the Administration provide the Japanese Government any further formal communication of what it should consider including in the Action Plan for Imports expected to be announced in late July or early August?

This paper also reviews the recent tariff announcement by the Japanese Government.

Japanese Export Surcharge

Some Japanese Government officials and private sector leaders reportedly continue to support the idea that Japan should deal with its trade problems by imposing an export surcharge. This approach appears to be motivated by a number of concerns. First, some Japanese feel that an export surcharge is an equitable means of having all exporters share the burden of addressing this problem. Second, some Japanese see this approach as a means of enabling Japan to capture the rents of restraining exports. Finally, these individuals appear to place greater weight on Congressional criticisms of the size of the U.S.-Japan trade deficit than on the Administration's emphasis on equal market access.

If the Japanese Government imposed an export surcharge, it would have serious economic and political implications. It would not provide U.S. firms equal market access to Japan -- our major objective in U.S.-Japan trade. A restriction of Japanese exports to the U.S. -- whether imposed by Japan or the U.S. -- would result in the classic costs of protectionism. Finally, it would provide the Japanese a pretext for claiming that our trade problems are resolved, which would reduce the pressure for opening Japanese markets to U.S. exports.

In a press conference in Tokyo earlier this month, Ambassador Smith strongly stated that the U.S. would not welcome a Japanese export surcharge. At his confirmation hearing on June 25, USTR-designate Yeutter condemned the export surcharge as a "tragic" error. Notwithstanding these statements, it appears that certain influential Japanese leaders continue to support the idea.

Issue: Should the Administration again convey to the Japanese Government that it would not welcome an export surcharge imposed by Japan?

It appears that Administration statements to date may have fallen on deaf ears. Without a strong reiteration by the Administration of the need to open Japanese markets, the Japanese Government may impose an export surcharge in order to satisfy what it perceives as the growing demand by the U.S. Congress for action to reduce the size of the U.S.-Japan trade deficit. In the absence of such a message, the Japanese are likely to follow their predilection for dealing with trade frictions by restricting exports, rather than by opening markets.

If the Administration decides again to convey its opposition to a Japanese export surcharge, it needs to communicate it as soon as possible to allow the Japanese Government sufficient lead time to factor that into their plans. If we decide to convey opposition, we need to determine how that should be done. The Administration has several alternatives:

- The President or a senior Cabinet official could directly convey the Administration's opposition through a letter or in a formal meeting. (For example, Secretary Shultz is scheduled to meet with Foreign Minister Abe at the ASEAN Ministerial meeting in mid-July.)

- Senior Administration officials could make public statements conveying our opposition.

Japanese Action Plan for Imports

On April 9, the Japanese Government announced that it would develop the outline of an "Action Plan for Imports" to be implemented over three years. We now understand that the announcement of this plan, originally scheduled for mid-July, will be delayed until late July or early August.

On June 24, the U.S. Government made two communications to the Japanese Government regarding the Action Plan. First, Secretary Shultz wrote Foreign Minister Abe a letter expressing our high expectations that the Action Plan would address both those issues outstanding and a number of structural issues.

Second, the U.S. Embassy in Tokyo orally presented to the Japanese Foreign Ministry a list of U.S. Government suggestions regarding the content of the July Action Plan. This list addressed the outstanding issues to which Secretary Shultz's letter referred, i.e., those already identified in the MOSS talks and other bilateral discussions. It also included a number of suggestions for medium- and long-term actions Japan could take to remove structural barriers to foreign participation in the Japanese economy.

One issue the Economic Policy Council should address is whether the Administration should make any further formal communication to the Japanese Government regarding what should be included in the Action Plan.

Japanese Tariff Announcement

On June 25, the Japanese Government announced that it intends to eliminate tariffs on 37 items and reduce tariffs by about 20 percent on approximately 1,800 items. We have not yet received the full list of items on which tariffs will be reduced. However, it is unfortunate that some of our priority items such as wood products, chocolate confectionery, and grapefruits will not be included, and that tariff cuts on other items such as paper products and wine will be much smaller than the Administration had sought. We have already received numerous telephone calls from excluded U.S. industries expressing outrage over the lack of tariff action on their products.

The Japanese Government told us informally that this tariff announcement was made in June rather than as part of the July action plan because it needed to address some tariff requests by Southeast Asian countries before the ASEAN Ministerial conference in mid-July.

Japanese agricultural imports from the U.S. of items affected by the tariff announcement totaled only $34 million in 1984 or 0.5 percent of total U.S. agricultural exports to Japan of $6.8 billion. Only five agricultural items in the tariff package were on the U.S. tariff request list delivered to Japanese officials at the June 19 Trade Committee meeting in Tokyo.

There are, however, some items in the announcement that are of interest to the U.S., including aluminum aircraft skins and telecommunications and radio equipment. USTR is seeking clarification of what products are included under telecommunications and radio equipment.

The Administration's public response to the tariff announcement has been to welcome it, but to express disappointment regarding both the scope and depth of the tariff cuts.

$74 million cost

COMMON FUND

Issue

Should the United States ratify the Common Fund?

It is time for the United States to make a definitive decision on the Common Fund and put the issue behind us. The issue is coming to the fore because of diplomatic pressure on the United States to ratify. The pressure is occasioned by the fact that ratifications have reached the point where U.S. ratification (and expected ratifications following our lead) would be sufficient to bring the Common Fund into force. However, to ratify, the United States would have to jettison a precondition we have insisted on for the last four years and to overcome philosophical aversion and practical doubts about the Common Fund.

U. S. position

The U.S. position has been that we would consider taking steps to ratify the Common Fund Agreement when several eligible commodity agreements are prepared to associate with the Common Fund. This consistent U.S. position is based on the premise that the Common Fund makes no sense without commodity agreements able to associate with it. The United States has declined to pledge resources to the Second Window of the Fund, and our position is not affected by arguments that the Second Window should be allowed to operate even if the First Window never does. The United States has also rejected the notion that we should ratify because other countries have.

Provisions of the Common Fund

The ideas motivating the Common Fund are that price-stabilizing commodity agreements are desirable and that commodity organizations can borrow more cheaply as a group (from one another and commercially) than as individual entities.

The Common Fund's intent then is to facilitate the financing of price-stabilizing buffer stock agreements and to help mobilize funding of "other measures" to improve the market position of commodities. To this end, the Common Fund's First Window is designed to lend money to the buffer-stock operations of associated commodity agreements. The source of the funds would be pooled assets of associated agreements and funds borrowed commercially.

The Fund's Second Window would finance commodity projects aimed at improving structural conditions in commodity markets and at enhancing the competitiveness of commodities.

Entry-into-force requires ratification by 90 countries accounting for two-thirds of $470 million of direct contributions (to be used as collateral to secure commercial borrowing), and 50 percent of $280 million of voluntary contributions to the Second Window.

Current situation

As of the end of June, 85 countries had ratified the Common Fund accounting for 51 percent of direct contributions. The Second Window requirement for entry into force has already been met. The last deadline for entry into force was January 1, 1984; this deadline was not met but it has been extended de facto.

The United States has a 15.7 percent share of direct contributions. Ratification by the United States would complete the two-thirds threshold and sufficient ratifications to reach the required 90 would follow in the wake of U.S. ratification. West Germany is expected to announce its ratification soon. Among other major countries, only the Soviet Union has not ratified; it may do so soon; if other communist countries also ratify, the Common Fund could enter into force without the United States.

Meanwhile, contentious issues over voting and rules for Second Window financing are in abeyance until it is known whether the Fund will enter into force. The voting question revolves around LDCs' insistence that their bloc have effective voting control of the organization under all circumstances. This would require further decoupling of financial contributions from votes, a highly undesirable feature in a financial institution.

History

The idea of a common fund has been a major feature of international discussion since about 1974. At that time the UNCTAD Secretariat elaborated a common fund proposal, opened it for international discussion, and promoted it. Developed countries showed little or no interest in a common fund, questioning its need and usefulness. But developing countries kept up the pressure and negotiations began in 1977. These negotiations led to formal "Articles of Agreement for the Common Fund" in June 1980. The United States signed the articles in 1980. Since then, ratifications have steadily increased, as the UNCTAD Secretariat pushed for entry into force. At the same time, however, high-level interest in major industrial countries has faded, as evidenced by Summit communiques which at first urged ratification, but at London simply stated "some of us also wish to activate the common fund for commodities."

Commodity agreements

Currently there are only three agreements which have buffer stocks and which are thereby eligible to associate with the Common Fund, if it enters into force. These are international commodity agreements for cocoa, natural rubber, and tin. (The coffee agreement, the wheat agreement, and the new sugar agreement do not qualify since they have no internationally controlled stocks.) All three of the potentially eligible agreements would require significant modification to meet requirements for association with the Common Fund. Although the agreements have provisions to enable them to associate with the Fund, none have started the process.

Options

1) Ratify

US ratification would be well received by the Group of 77 and some of our OECD allies. It would eliminate the United States as an obstacle to entry into force, and thereby to LDC access to resources pledged to the Second Window by other countries. The cost is not large, $74 million, $25 million paid in. But it would require the United States to abandon its present position that there first be commodity agreements able to associate with the Fund. There are no clear economic benefits to the United States other than small potential savings for our membership in the rubber agreement if it associates (we are not members of either the cocoa or tin agreement). And the Fund might foster new commodity agreements which this Administration dislikes and would bring into operation another concessional aid institution (the Second Window). Moreover, in ratifying the Common Fund, the United States would accept a voting structure, bad in itself, and inimical to our interests in other financial institutions.

2) Reject ratification

Would subject us to considerable political heat, because the United States has abandoned a principal prop of the north-south dialogue. The Fund could come into being without the United States, providing a propaganda windfall for the Soviet Union which could claim credit. However, that would avoid U.S. cooperation in bringing into force an institution which goes against U.S. commodity policy and against U.S. policy on additional concessional finance. Also, it would avoid encouraging the belief that given enough time and pressure the United States is prepared to accede to questionable economic ventures.

3) Don't change present position

It is sensible to insist that the Common Fund have something to finance before agreeing to it. It leaves the door open to eventual ratification. Other countries would continue to pressure us to ratify. The Common Fund is unpalatable in principle and of little or no use in practice and it is time to remove it from our agenda by announcing we will not ratify.